



The Contribution of Shareholder Primacy to the Racial Wealth Gap

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INTRODUCTION

The US racial economic gap is substantial and growing, stemming from a history of racism and the importance of intergenerational transmission to wealth accumulation (Darity and Hamilton 2012); (Chiteji and Stafford 1999). The 2016 Survey of Consumer Finances by the Federal Reserve showed that while the median family wealth for white households was \$171,000, for Black households it was \$17,600 and for Hispanic¹ households, \$20,700 (Dettling et al. 2017). Wealth equity is important because wealth permits economic freedom: the ability to invest in one's future and the future of one's children (Darity and Hamilton 2012). Disparities in home ownership and debt have been investigated in the racial wealth gap literature as key drivers of the growing racial wealth gap. This working paper will investigate the role of corporate equities and mutual fund ownership in increasing the racial wealth gap over time.

Corporate equity ownership is extremely unequal in the US. While 60 percent of white households own equity, only 31 percent of Black households and 28 percent of Hispanic households do (Dettling et al. 2017). What's more, these basic ownership statistics mask how the actual dollar value of corporate equity is distributed, and what this means in terms of who is earning payments made to shareholders from corporate funds. As of the third quarter of 2019, 92.1 percent of corporate equity and mutual fund value was owned by white households. Black households owned 1.5 percent, while Hispanic households owned 1.9 percent. Put into dollar values, for the same period, white households held corporate equity and mutual funds valued at \$23.11 trillion in aggregate, while Black households owned \$0.38 trillion and Hispanic families \$0.49 trillion. In comparison, white households held \$23.42 trillion in household wealth, while Black households held \$1.59 trillion and Hispanic households \$1.50 trillion. This can be contrasted with population shares, which were: white non-Hispanic, 60.4 percent; Black or African American, 13.4 percent; and Hispanic or Latino, 18.3 percent.²

In this working paper, I explore several ways of evaluating the impact of disparate equity ownership, and payments to shareholders, on racial wealth disparities. I use the Federal Reserve's Distributional

¹ The Federal Reserve Survey of Consumer Finances (SCF) uses the term 'Hispanic' rather than Latino or Latinx. For clarity, this working paper uses the terminology of the SCF. Technically, 'Latinos' refers to people of Latin American descent, while Hispanics refers to Spanish-speaking persons. 'Latinx' is a gender-neutral neologism, replacing Latino.

² United States Census Bureau, "Quick Facts." <https://www.census.gov/quickfacts/fact/table/US/PST045219>. Accessed January 27, 2020.

Financial Accounts to determine the changing impact of the corporate equity gap on the racial wealth gap, and to measure how shareholder payments—dividends and stock buybacks—are divided by race and ethnicity. This original analysis contributes to policy discussions about how to structure the rules for corporate equity ownership in society, and how to end wealth inequities that are a legacy of the US’s shameful history of slavery, racism, and xenophobia. As noted by Insight Center for Community Economic Development President Anne Price, it is critical to focus “on the *root* of racial wealth inequality rather than fixating on the racial wealth *gap*,” because a gap can be partially closed without addressing its underlying causes (Price 2020). This working paper uses the gap as a measurement device but supports a conceptual and policymaking reframing to focus on wealth *equity*—by confronting ongoing racism, checking the dominance of corporations that stems from neoliberal economic theory, and increasing public power (Price 2020).

Shareholder primacy—the corporate governance framework for the operation of large modern corporations—is linked to wealth inequality (Ireland 2005). The shift beginning in the 1970s to shareholder primacy has meant that corporate directors and executives prioritize increasing shareholder wealth as quickly as possible, to the detriment of other, more productive uses of corporate funds (Lazonick and O’Sullivan 2000). This framework is contested as a correct understanding of corporate law and reflects a ‘market orthodoxy’ view of the corporation as simply a nexus of contracts, rather than as a social institution (Admati 2017). Scholars have explored the impacts of shareholder primacy on corporate investment and the slowdown of the macroeconomy, as well as in terms of the income gap (Lin and Tomaskovic-Devey 2013); (Lazonick 2014); (Tulum and Lazonick 2018). This working paper contributes both to this broader literature on financialization and shareholder primacy and to the literature on the racial wealth gap by examining the impacts of shareholder primacy on the US racial wealth gap.

The working paper proceeds as follows. Section 2 describes the broader literature on the racial wealth gap and shareholder primacy. Section 3 uses data from the Federal Reserve’s Distributional Financial Accounts and S&P Compustat to show in dollar value who is receiving shareholder payouts. Section 4 examines the importance of the corporate equity gap to the broader racial wealth gap. Section 5 concludes with policy recommendations and discussion.

THE RACIAL WEALTH GAP AND SHAREHOLDER PRIMACY

The Racial Wealth Gap

The racial wealth gap is persistent, despite gains by Blacks, Latinxs, Asian Americans and Pacific Islanders, and Native Americans in income, education, and civil rights (Nembhard and Chiteji 2006). In part, the racial wealth gap is related to the overall growth of wealth inequality, yet economists find persistent gaps in wealth due to race and ethnicity net of other contributors to the wealth gap (Gittleman and Wolff 2004). Racism and structural discrimination have shaped the wealth of households differently for Blacks, Latinxs, Asian Americans and Pacific Islanders, and Native Americans. African Americans have faced a long history of racism and exclusion that has prevented their ability to build wealth over generations, beginning with the horrors of chattel slavery. Sharecropping, Jim Crow laws, exclusion from government benefits like the GI Bill, and financial exclusion (such as the targeting of communities of color for subprime loans before the housing crisis of 2008) have contributed to the racial wealth gap. For Latinx households, loss of land and community, and economic immigration from Latin America, have resulted in low levels of wealth. For Native Americans, forced removal from land, concentration on reservations, and labor market exclusions have placed the nation's original residents at a deep disadvantage (not to mention the fact that data on Native American household wealth is not provided on its own by government statistics). For Asian Americans and Pacific Islanders, whose household data is also not disaggregated in the Distributional Financial Accounts, the immigration experience has been quite varied, resulting in a complex set of financial outcomes. Due solely to the limitations of the data on race and ethnicity provided by the Federal Reserve, this paper will focus exclusively on the Black-white and Latinx (Hispanic)-white wealth gaps.

The racial wealth gap persists because, as economist Darrick Hamilton says, “wealth begets wealth.”³ Wealth enables households to invest in their family's future, and positive asset ownership allows families to invest in assets likely to produce high returns (Zewde 2019). Wealth compounds over time due to intergenerational wealth transmission (Chiteji and Stafford 1999). Parents pass on wealth to

³ https://www.ted.com/speakers/darrick_hamilton

their children through gifts and transfers, or through being able to pay for a child's college education or co-sign on a major loan. The tax system, moreover, favors wealth over income (e.g., estate taxes). Another source of the racial wealth gap today comes from wealth strippers—subprime mortgages disproportionately marketed to families of color; higher interest rates on debt; and other forms of financial exclusion (Price 2020). In addition to its obvious economic importance, wealth gives households social and political power above and beyond its economic consequences (Zewde 2019). Wealth concentration in a society has deep impacts on the functioning of its democracy (Flynn et al. 2017).

Overall, wealth inequality is growing in the United States. According to the Federal Reserve's Distributional Financial Accounts, the share of household wealth held by the top 10 percent went from 60.9 percent in 1983 to 69.7 percent in 2019. The top 1 percent on its own went from holding 23.9 percent of household wealth in 1983 to 32.3 percent in 2019, while the wealth share of the next 9 percent stayed nearly steady, rising by 0.4 percentage points. Meanwhile, the wealth share of the bottom 50 percent of American households *fell*—from 3.7 percent in 1983 to 1.5 percent in 2019. Even in the relatively prosperous 1990s, the wealth share of the bottom 50 percent hovered around just 4 percent of total wealth. Households from the 50th to 90th percentiles in terms of wealth also saw their share of total wealth fall by 7 percentage points. The combined 7 percentage-point loss from the 50th to 90th percentiles and the 2 percentage-point loss from the bottom 50th percent went directly to the top 1 percent, resulting in their 9 percentage-point increase in wealth share. Because of the history of structural racism in the US, the households of Blacks, Latinxs, Asian Americans and Pacific Islanders, Native Americans, and mixed-race families fall disproportionately lower on the wealth distribution.

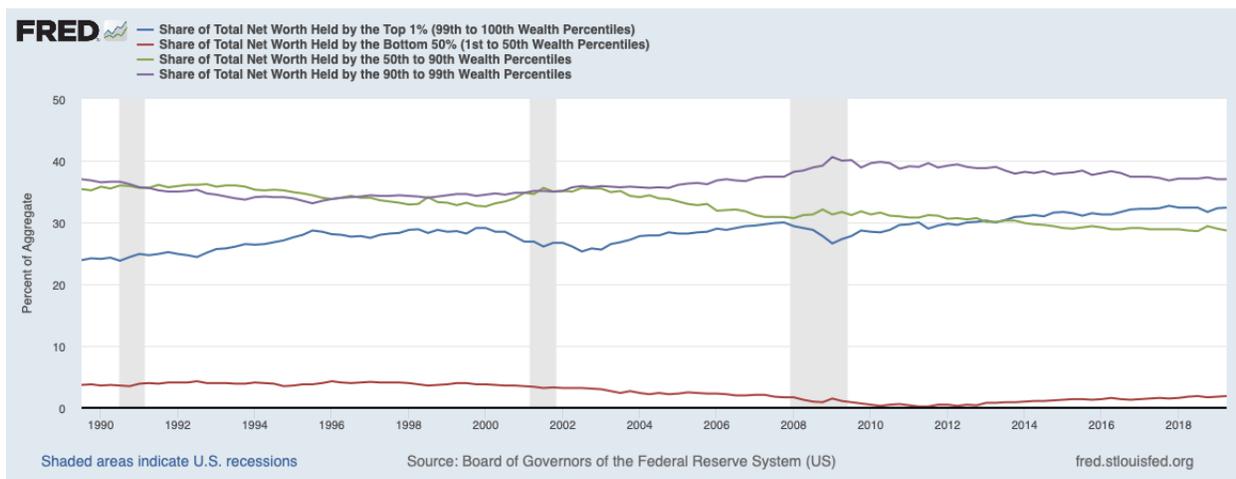


FIGURE 1 Distributional Financial Accounts Share of Net Worth Held by Wealth Category. *Source: Board of Governors of the Federal Reserve System (US).*

Economists measure the racial wealth gap using several different data sources and mechanisms. The new Distributional Financial Accounts (DFAs) from the Federal Reserve (discussed in detail below) present data on the share of total household wealth held by white households, Black households, Hispanic households, and “other.” The DFAs show that the racial wealth gap in terms of aggregate shares has been remarkably persistent over the last 15 years. In 2004, white households held 89.8 percent of all wealth, and in 2019 they held 85.2 percent. The wealth share of Black households moved from 4 percent to 4.3 percent during that time frame, while Hispanic households’ share went from 2.5 percent to 3.2 percent (the “other” category captured most of the loss to white households, moving from 3.6 percent to 7.3 percent). This is in contrast to population shares of white non-Hispanic, 60.4 percent; Black or African American, 13.4 percent; and Hispanic or Latino, 18.3 percent.⁴

⁴ <https://www.census.gov/quickfacts/fact/table/US/PST045219>

WEALTH BY RACE

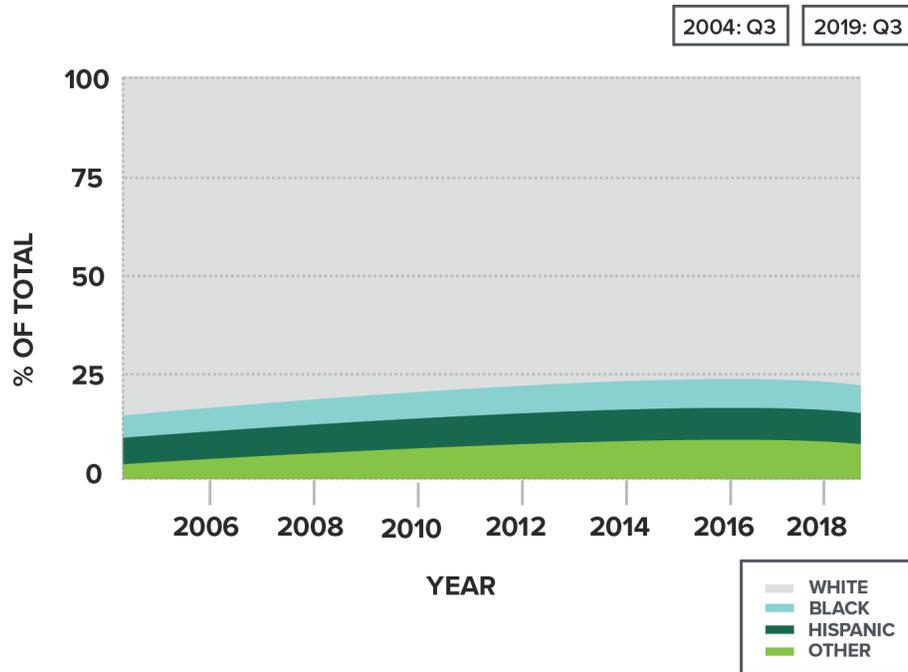


FIGURE 2 Wealth & Population Shares. Source: Distributional Financial Accounts, Federal Reserve.

Another common way to investigate the racial wealth gap is to look at median⁵ net worth for households of different race and ethnic groups, and to empirically investigate what percentage of the difference in median net worth can be attributed to race and ethnicity directly. According to the 2016 SCF, white non-Hispanic families had a median net worth of \$171,000, while Black household median net worth was \$17,600, and Hispanic net worth was \$20,700. For all racial and ethnic groups, the mean net worth is substantially higher, reflecting the high concentration of wealth at the top end of the distribution. Median net worth fell by 30 percent during the Great Recession. Black and Hispanic household net worth fell an additional 20 percent in the 2010–2013 period, while white household wealth remained steady. Even as median net worth rose in the study period of 2013–2016, as US households recovered from the Great Recession, the white-Black gap in median net worth rose by \$20,700, while the white-Hispanic gap rose by \$18,100 (Dettling et al. 2017).

⁵ It is more appropriate to use median figures rather than mean (average) figures when the distribution is skewed, as it commonly is for wealth, with a large concentration on the right tail.

Driving the rising wealth gap are changes on both the assets and liabilities sides of the balance sheet. The DFAs break down assets and liabilities into subcategories; sample years from 1990 to 2015 are presented in Table 1. As the data show, wealth concentration is not the same across asset classes. For example, though Black households owned between 4.6 percent and 5.6 percent of real estate assets over the sample period, their ownership of corporate equity ranged from 1 percent to 1.3 percent. For Hispanics, real estate wealth ranged from 3.6 percent of total household real estate assets to 4.8 percent, while for corporate equity, their share of ownership ranged from 0.6 percent to 1.6 percent. When looked at in dollar amounts, white ownership value of real estate (\$23.42 trillion) and corporate equities (\$23.11 trillion) are close in value (a difference of \$0.31 trillion), whereas Black households own \$1.21 trillion less in corporate equities than they own in real estate, and Hispanic households own \$1.01 trillion less.

	Net Worth			Real Estate			Corporate Equity		
	White	Black	Hispanic	White	Black	Hispanic	White	Black	Hispanic
1990	90.3	3.8	2.0	87.2	4.6	3.6	95.6	1.0	.6
1995	90.2	3.9	1.7	87.4	5.1	3.1	95.5	1.2	.3
2000	91.2	3.4	2.1	87.3	5.0	3.4	96.0	.9	1.4
2005	89.3	3.9	2.6	84.3	5.2	4.5	93.8	1.7	1.4
2010	87.9	3.7	2.2	81.1	5.3	4.5	90.8	1.0	1.2
2015	86.3	4.1	2.5	79.8	5.6	4.8	92.4	1.3	1.6
2019q3	85.2	4.3	3.2	80.2	5.4	5.1	92.1	1.5	1.9

TABLE 1 Wealth Shares and Levels by Assets & Liabilities (not reporting “Other”). Source: <https://www.federalreserve.gov/releases/z1/dataviz/dfa/distribute/table/#frb-rs-dfa-table:quarter:120;series:Corporate%20equities%20and%20mutual%20fund%20shares;demographic:race:population:1,3,5,7;units:shares>

(in US\$ Trillions)

	Net Worth			Real Estate			Corporate Equity		
	White	Black	Hispanic	White	Black	Hispanic	White	Black	Hispanic
1990	18.93	.80	.42	6.19	.33	.25	1.91	.02	.01
1995	24.14	1.04	.46	7.21	.42	.25	3.63	.05	.01
2000	38.75	1.42	.91	10.51	.59	.40	10.48	.09	.15
2005	50.51	2.21	1.45	17.85	1.10	.95	8.89	.16	.13
2010	53.39	2.25	1.32	15.75	1.03	.87	9.80	.11	.13
2015	73.48	3.52	2.16	17.57	1.23	1.06	18.13	.26	.31
2019 q3	91.3	4.64	3.46	23.42	1.59	1.50	23.11	.38	.49

TABLE 2 Wealth Shares and Levels by Assets & Liabilities (not reporting “Other”). Source: <https://www.federalreserve.gov/releases/z1/dataviz/dfa/distribute/table/#frb-rs-dfa-table:quarter:120;series:Corporate%20equities%20and%20mutual%20fund%20shares;demographic:race:population:1,3,5,7;units:shares>

It is useful to compare the racial wealth gap with the racial income gap and rates of labor market participation. Much household wealth is intergenerational and not the result of savings from labor income, though for African American and Latinx families, savings from income comprises a larger share of wealth. Income is clearly stratified by race: The most recent American Community Survey shows that white non-Hispanic households had a median income of \$67,937, while Black households had a median income of \$41,551, and Hispanic households earned a median of \$51,404 (Guzman 2019) (see Table 3). Unemployment remains stratified by race: The African American unemployment rate (which counts only individuals actively looking for work and not in institutional settings) has remained roughly double the white unemployment rate for decades.⁶ In their 2018 research, Paul et al. investigate the wage penalty of holding multiple “socially salient” identities, finding that “there is no single ‘gender’ or ‘race’ penalty irrespective of one’s race or gender” (Paul et al. 2018). Yet despite progress in closing the income gap, the racial wealth gap remains steady.

An important way to understand the drivers of the racial wealth gap is to look at the differing portfolio compositions to understand the different wealth escalators at play (Chang 2010). One of the most

⁶ US Bureau of Labor Statistics, Unemployment Rate: Black or African American [LNS14000006], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/LNS14000006>, January 9, 2020. https://fred.stlouisfed.org/graph/?graph_id=602480#0

commonly understood assets that increases the wealth of the non-wealthy is home ownership. Using the net-worth subcategories as defined above, the DFAs present data on specific asset and liability classes by race and ethnicity. Homeownership is stratified by race: In the third quarter of 2019, the homeownership rate for white households was 73.4 percent, while for Black households the rate was 42.7 percent; the rate for Hispanic households stood at 47.8 percent; and for Asian Americans, Native Americans, Hawaiians, and Pacific Islanders, the rate was 58.5 percent.⁷ However, Black and Hispanic households hold a higher percentage of their own net worth in housing—37 percent and 39 percent, respectively. For white households, housing assets represent 32 percent of wealth.

Wealth component	White (US\$ Trillions)	Black (US\$ Trillions)	Hispanic (US\$ Trillions)	Other (US\$ Trillions)
Real estate	23.42	1.59	1.50	2.69
Consumer durables	4.42	0.50	0.35	0.46
Corporate equities and mutual fund shares	23.11	0.38	0.49	1.11
Pension entitlements	21.24	2.28	1.11	2.69
Private businesses	12.12	0.29	0.27	0.84
Other assets	18.47	0.98	0.63	1.72

TABLE 3 Wealth Assets by Race & Ethnicity.

⁷ <https://www.census.gov/housing/hvs/files/currenthvspress.pdf>

Debt has also been an important driver of the racial wealth gap. According to the 2016 SCF, African Americans and Hispanics had debt-net worth ratios of 0.55 and 0.51, respectively, while the ratio for white households was 0.18 (Wolff 2018). It is important to note, given the median figures, the difference in proportions of households that have zero or negative net worth: For Black households, it is 19 percent, while it is 13 percent for Hispanic households and 9 percent for white households. Black families are the most likely to have education debt, and the most likely to have high debt-to-income ratios; 9 percent of Black families had a debt-to-income ratio of 40 percent.

The contribution of this working paper is to look more closely at the impact of the disparity in ownership of corporate equity. That will be the focus in Sections 3 and 4. Before moving to that analysis, it is useful to describe in more detail the shareholder primacy framework for corporate governance.

Shareholder Primacy and Equity Ownership

How decisions are made in corporate boardrooms may seem a distant factor in the racial wealth gap and distributional consequences of household wealth. Yet the ideology that drives corporate decision-making—namely, that all other costs must be minimized in order to increase shareholder value—has impacted workers and long-term shareholders (Ireland 2005). This framework, though contested as a matter of corporate law, is accepted practice and means that corporate executives fear actions by activist investors if they do not consistently raise share prices.

The view that shareholders have rights to the profits created through corporate activity, and that costs should be minimized to increase such profits, is based on the economic theory that a corporation is simply a ‘nexus of contracts’ (Jensen and Meckling 2009) and that shareholders are the only stakeholder group within the firm taking the kinds of risks that deserve a variable reward. In other words, employees, management, and bondholders have a “fixed” contract with a corporation, while shareholders invest with no security of returns. Therefore, they have the best incentive to hold management accountable, as they have the most to gain and the most to lose.

This economic framework is fundamentally flawed in several ways.⁸ First, employees, suppliers, and the broader public also take risks in their engagement with the corporation and bear the impact of cost-minimization in the name of maximizing shareholder wealth. Second, household shareholders in practice have largely diversified portfolios and thus have little interest in engaging with management for a given firm; their purchase of equity happens on the secondary market—they buy stock from other shareholders, so their funds never actually reach the corporation itself (Lazonick 2017). Finally, corporations are businesses given public permission to operate in the form of a public charter, without which they cannot take advantage of the privileges of limited liability and perpetual existence. Because they are important social institutions, in a democratic society, the public permission to operate should come with public accountability to operate in the general public benefit (Palladino 2019). As will be explored below, equity ownership itself is extremely skewed. This means that despite purported arguments that what is good for shareholders is most efficient for society, in reality, the benefits of shareholder primacy flow largely to the elite—and mainly white—shareholder class (Ireland 2005).

There is a variety of economic effects that flow from shareholder primacy. One is the downward pressure on worker wages and the loss of worker bargaining power for a share of corporate profits (Palladino 2020). A second is that shareholder primacy has driven a constant rise in stock market value, even as corporate profits fluctuate and corporate debt rises. Due to rising shareholder primacy, the stock market is at an all-time high. The S&P 500 Index, considered a benchmark of the state of the capital markets, has been steadily rising. Stock buybacks—a practice in which corporations repurchase their own equity on the open market in order to increase the share price of remaining shares, without substantive corporate improvements—reached an estimated \$800 billion in 2018 (Palladino 2020). The next two sections will consider what rising shareholder primacy and the uneven distribution of equity ownership means for the US racial wealth gap.

⁸ For a more in-depth discussion, see “The Economic Argument for Stakeholder Corporations.”



FIGURE 3 Growth of the S&P 500. Source: *S&P Dow Jones Indices LLC*.

SHAREHOLDER PAYMENTS ACCRUING BY RACE AND ETHNICITY

Corporate equity holdings have been, according to the DFAs, “large drivers of wealth concentration” (p. 28, Batty et al. 2019). In 1989, the richest 10 percent of households held 80 percent of corporate equity; their share has increased to 87 percent in 2019, with the largest gains concentrated in the top 1 percent, whose share of corporate equity increased from 39 percent to 50 percent over the last 30 years. What has this meant in terms of the use of corporate funds for shareholder payments—to which households are shareholder payments going?

I combine data from the DFAs on corporate equity and mutual fund ownership by race and ethnicity with data from the S&P Compustat database to calculate total shareholder payments flowing to white, Black, and Hispanic households. S&P Compustat is a private database that aggregates reports that publicly traded companies must make for the Securities and Exchange Commission under securities laws, which prioritize disclosure as the best protection for investors. I use two variables that I combine to call “shareholder payments”: first, corporate dividends; and second, stock buybacks. Dividends are payments authorized by the board to be paid to all shareholders at the time of the dividend distribution. Stock buybacks are a corporate financial mechanism in which the corporation repurchases its own stock on the open market, thus raising the price of shares that remain. Even

though buybacks are more indirect forms of shareholder payment, as they accrue to share-sellers and not to all shareholders, they are an important use of corporate funds deployed in the pursuit of increasing shareholder wealth (Lazonick 2014). I combine these variables to find quarterly shareholder payments in nominal dollars. I then use the share of corporate equity and mutual fund ownership by quarter by race and ethnicity to find the total dollars made as shareholder payments to a given racial or ethnic group per quarter. The purpose of this exercise is to demonstrate how the income that accrues based on equity ownership is distributed. Because data on stock buybacks only became available on a quarterly basis as of 2004, I use data from 2004–2019 for this analysis. I reduce the shareholder payments earned by the ratio of household ownership of corporate equity to total corporate equity assets for that quarter, which ranged between 34 percent and 39 percent over the 15-year period. This will dramatically undercount household assets that are held by institutional investors who invest directly with portfolio companies; due to the rise of institutional investors, more and more household equity is held indirectly (Bebchuk and Hirst n.d.). However, it is not possible to disaggregate household holdings in institutions from the holdings of other entities.

I find a Black-white ratio of 0.013 and a Hispanic-white ratio of 0.016 for total shareholder payments made over the period from Q1 2004 to Q2 2019. Total shareholder payments made to white households during that time frame totaled \$13 trillion, while \$181 billion went to Black households and \$212 billion to Hispanic households. This measure gives a clear sense that shareholder payments, in the form of corporate dividends and stock buybacks, are flowing disproportionately to white households.

CONTRIBUTION OF CORPORATE EQUITY OWNERSHIP TO THE RACIAL WEALTH GAP: HAS IT RISEN OVER TIME?

Data and Methodology

Using the Federal Reserve’s Distributional Financial Accounts data on the dollar levels of wealth by race and ethnicity allows calculations of how the gap between Black and white corporate equity and mutual fund wealth has contributed to the overall racial wealth gap over time. First, I calculate the assets gap between Black and white households and Hispanic and white households in nominal

dollars for a given quarter, as reported by the DFAs. Next, I calculate the dollar gap for the same period in the specific wealth category of corporate equities and mutual funds. Finally, I calculate the percentage that the corporate equities gap represents of the total assets gap for a given quarter, in order to understand how corporate equities as an asset class have contributed to the racial wealth gap over time. I focus exclusively on assets, as the changing ownership of corporate equity does not affect the liabilities side of a net worth analysis.

Contribution of Corporate Equity to the Racial Asset Gap

I find that the contribution of ownership of corporate equities to the racial wealth gap has grown over time, even as levels of corporate equity ownership

This ratio has climbed steadily since then. By 1995, the ratio of the corporate equity gap to the racial wealth asset gap had reached 15 percent for both Black and Hispanic households, with a corporate equity gap of \$4.4 trillion and an asset gap of \$28.5 trillion for Black-white households; and \$4.5 trillion and \$29.1 trillion for Hispanic households. For Black households, the ratio first passed 20 percent in 1998, fell to a low of 12 percent in 2003, and has remained above 20 percent since 2013; it has followed a similar trajectory for Hispanic households. Though Black families now own \$378 billion in corporate equities and mutual funds, and Hispanic families own \$487 billion, white households now own \$23 trillion. The contribution of corporate equity ownership to the racial wealth gap for Black and Hispanic households had increased to 23 percent in 2019. This comparison over time shows the importance of shareholder primacy to maintaining the racial asset gap.

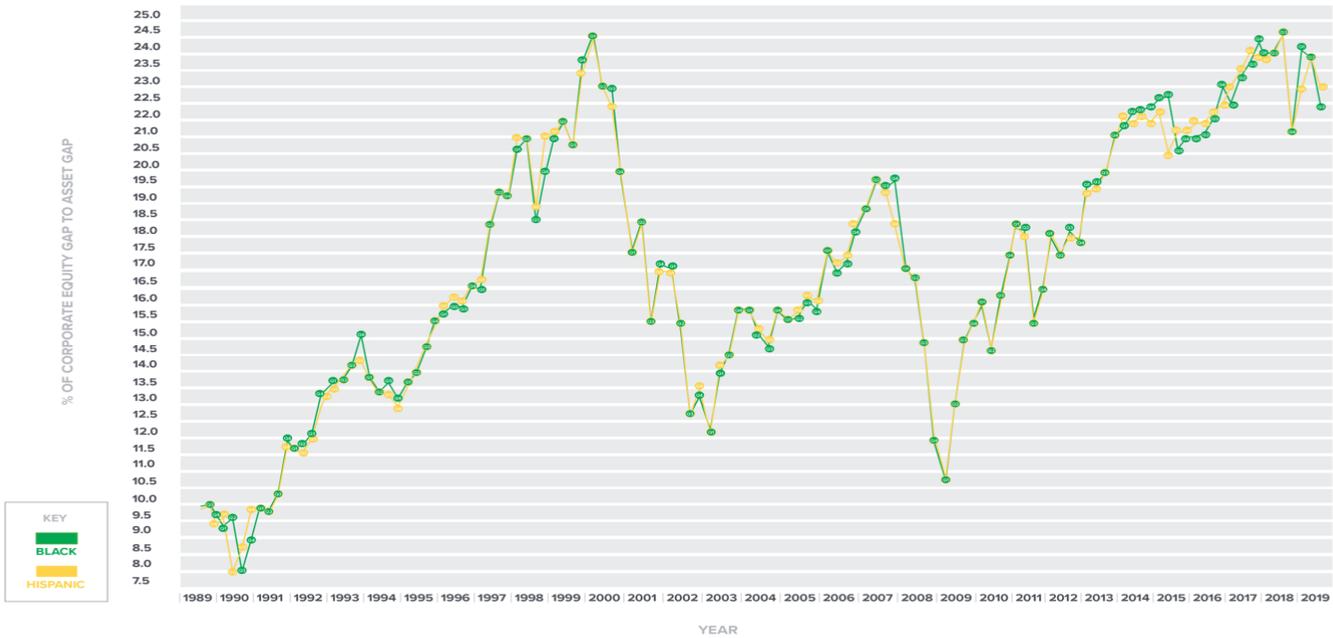


FIGURE 4 Percentage of Corporate Equity Gap to the Racial Asset Gap.

Discussion and Conclusion

Effectively addressing the wealth inequities presented in this working paper will require different policies targeted to the various drivers of wealth disparities, including policies that

- reduce the ability of the wealthiest households to capture the majority of value produced by corporations;
- build wealth assets for households of color; and
- curb the wealth-stripping mechanisms that disproportionately impact families of color.

To move toward wealth equity, it is necessary to deconcentrate ownership of wealth at the top of the distribution. It is insufficient to increase the assets and decrease the liabilities held by Black and Latinx households, as evidenced by the fact that the contribution of corporate equity to the racial wealth gap is growing. It is also necessary to reduce the ability of largely white, wealthy households to

disproportionately capture the economic value created by corporations—which translates into rising corporate equity wealth.

This working paper presents evidence that ending shareholder primacy is critical to addressing wealth inequities, so that the wealth created through corporate activity is more broadly shared. First, retirement security for all Americans should not depend on equity ownership. Regardless of whether households have worked in the formal labor market or engaged in care work, all people deserve security in their old age, well beyond what Social Security currently supplies. Stronger retirement security programs would reduce reliance on corporate equity for prosperity in one's old age.

Reducing the ability of the wealthy to capture the gains of corporate activity, in part by squeezing employee costs, means ending the corporate governance framework of shareholder primacy. New rules for corporate behavior should include:

- reframing the purpose of the corporation to operate in the general public benefit;
- reforming the fiduciary duty of boards of directors so that they are responsible for considering the impact of their decisions on all stakeholders, including the broader public and community, employees, suppliers, and customers (This means that the costs of doing business cannot be transferred to these stakeholder groups in the name of increasing shareholder wealth.); and
- including those stakeholders in governance and board participation (Palladino 2019).

To disincentivize short-termism and shareholder primacy, policymakers should implement substantive rules determining how corporate funds are spent. First, stock buybacks should be curbed or limited. Second, executive compensation should no longer be tied to short-term share prices—a practice that has given executives outsized personal interest in increasing shareholder wealth in the short-run at the expense of long-term corporate productivity and innovation (Lazonick 2019). Finally, tax policy should be reformed to increase the length of time that equity must be held to disincentivize short-termism, and a financial transaction tax can dampen speculative transaction activity.

When corporations operate in the general public benefit, when they are required to take into account the impact of their decisions on all stakeholders, and when the incentives for short-termism are gone, the question will then become how access to equity should become democratized and more equitable. One way is through the establishment of public investment accounts and a public investment platform (Palladino 2019b). Public investment accounts—which are similar to (and inspired by) the “baby bonds” proposal described below—are a mechanism to redress structural racism and its impact on intergenerational wealth transmission by engaging public funds in grants of equity to individuals based on household net worth. A public investment platform would create a public mechanism for capital market activity. Both proposals seek to transform equity ownership into a mechanism for shared prosperity. A related policy intervention would be to establish employee ownership funds, or mandatory shared employee ownership trusts that grant employees as a group the right to dividends declared and a voice in corporate governance.

In addition to policies that combat the contribution of shareholder primacy to the racial wealth gap, there is a series of policy proposals that address racial wealth inequities more broadly. The literature on these proposals is broad; for a useful summary, see Price 2020. It is critical that policy solutions do not continue the “neoliberal discourse by upholding personal responsibility narratives and strategies of entrepreneurial liberation and other fallacies” (Price 2020). True solutions require addressing root causes—stemming from hundreds of years of white gain at the direct expense of people of color—and undoing entrenched neoliberal economic theory and policymaking.

An important proposal to close the racial wealth gap is to create a US federal job guarantee program (W. Darity and Hamilton 2012). Economist William Darity (2010) proposes the formation of a “National Investment Employment Corps,” which would serve the dual purposes of establishing a guaranteed job for all citizens and engaging in badly needed infrastructure investment (both physical and human.) The policy draws on the legacy of the Civilian Conservation Corps established during the Great Depression and would establish the federal government as an ongoing employer of last resort. By paying a living wage and family-supporting benefits, the program would serve as a floor for both employment quality and quantity, and would more generally eliminate the economic insecurity and harm of unemployment.

Another proposal to reduce the racial wealth gap is the “baby bonds” policy proposal as developed by Darity and economist Darrick Hamilton (W. Darity and Hamilton 2012). The “baby bonds” proposal would create public trusts for all newborns, with the dollar amount in the trust based on household net worth. They propose the creation of trusts for 50–75 percent of all newborns in the United States, with an average account of \$20,000 that would grow to \$60,000 for babies born into the families with the lowest wealth. The trusts would grow through childhood at a federally guaranteed rate and would then become available for asset-building activities upon reaching adulthood. Per scholar Naomi Zewde’s simulation of the program’s impact, a baby bond program would reduce the wealth gap between young white and Black Americans from a ratio of 16 to 1.4, while also reducing the share of wealth held by the top decile from 72 percent to 65 percent (Zewde 2019).

Additional major reforms are required in supporting the provision of public goods like housing, health care, and retirement security; promoting financial access; stopping mass incarceration, supporting families and care work; fixing our broken political democracy, and many other areas (for a review of policy areas, see Price 2020). This working paper’s focus is on the contribution of shareholder primacy to racial wealth inequities; policies to curb corporate power and ensure that corporate value is shared by those who create it are a necessary but insufficient solution to the systems that perpetuate racial wealth inequities.

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